

ICPS newsletter

Consumer confidence down

In Ukraine, the March 2003 survey reported the Consumer Confidence Index (CCI) at 92.1 points (possible range 0 to 200), which was 1.3 points below the value registered during the December 2002 survey. Deteriorated expectations among Ukrainians are the principal reason for this decline, with the corresponding Index of Economic Expectations (IEE) descending by 3 points over Q1'03, to 97.2. The results of the consumer survey conducted among Ukrainians will be published in the next issue of the Consumer Confidence bulletin, to be released this week

After the constant growth starting at YE'00 and throughout 2001, the Consumer Confidence Index has been constantly fluctuating with a downward trend over the past 15 months. The drop in consumer confidence is primarily triggered by reduced economic expectations.

In March 2003, the Index of Economic Expectations slid down to a record-low value for the past eighteen months, and presently the share of pessimists exceeds that of the optimists. Ukrainians grew disheartened as to national economic development, both over the next year and in the long run; over the quarter, the corresponding indices fell by 6.5 and 5.2 points, to 90 and 95.5, respectively. We believe that such a deterioration in expectations, despite a high economic growth rate, can be attributed to the escalation of the international situation following the hostilities in Iraq. Specifically, this can explain the heightened pessimism with regard to economic development in the short run.

At the same time, the population's expectations of changes in their personal financial situation looked up; the corresponding index picked up by 2.6 points and reached a record-high value of 105.9. The Index of Propensity to Consume, which indicates the readiness of people to make large household purchases, also hit a record-high value in March; it attained 80 points, accruing 5.3 points over the quarter. Such results testify that Ukrainians are not inclined to believe that the worsened economic situation will affect their personal material situation.

Over the quarter, a higher propensity to consume boosted the Index of Current

Situation (ICS), which increased by 1.3 points to a record-high value of 84.5. Along with that, over Q1'03 the share of people expecting accelerated inflation dropped; the Index of Inflation Expectations dropped by 3.1 points, to 175.6. Nevertheless, inflation expectations are presently worse than on average throughout 2002.

The survey revealed worsened consumer confidence in Eastern Ukraine. Over the quarter, the corresponding CCI diminished by 3.1 points, to 92.8. Both throughout Ukraine and in the Eastern oblasts, confidence sank because of worsened expectations of economic development; over the quarter, the Index of Economic Expectations in the region dropped by 5.8 points, to 95. Therefore, the swell of optimism registered in Eastern Ukraine at the end of last year proved shortlived.

The gloomiest consumer confidence in March 2003 was observed among the residents of small and medium-sized cities. In particular, over the quarter the CCI in small cities dropped by 5.5 points, down to 89, while in medium-size ones it fell by 3.9 points, to 88.2.

Unlike for the population with average and above-average incomes, consumer confidence perked up among Ukrainians with below-average incomes. Over Q1'03, the corresponding CCI grew by 4.8 points, to 77.4. Consumer confidence in Ukraine's senior citizens (46–59 years old) also improved, with the corresponding CCI rising by 5.5 points, to 77.7. The improvement of confidence in these groups of people apparently had to do with the raise in minimum wages beginning on 1 January 2003 and plans for their further increases in H2'03. ■

Rapid economic growth: Will it continue?

The rapid growth of Ukraine's economy in early 2003 can be attributed primarily to a better price situation in global markets, as well as intensified competition in the most developed sectors of the domestic economy. We believe that these factors will have a multiplied effect on consumption and investment during 2003–2005, and therefore we have upgraded our forecast for this period. At the same time, we predict that the more sluggish growth of global prices and a drop in agricultural output in H2'03 will lead to the deceleration of economic growth in Ukraine by YE'03, to 4%. In 2004 and 2005, real GDP will rise by 4.5% and 5%, respectively. We forecast that the conflicts between the government and opposition in Ukraine will become fiercer at YE'03 and particularly in 2004, which will make it harder for the government to pursue effective policy and will stymie economic growth. After the 2004 presidential election, the battles between top political groups will ease off, which will facilitate enhancing the quality of economic policy.

These are the main results of the regular review of the forecast for Ukraine's economic development unveiled by the International Centre for Policy Studies last week.

The Consumer Confidence project is a regular survey conducted jointly by the International Centre for Policy Studies and the GfK-USM company since July 2000. If you wish to receive the Consumer Confidence bulletin, with a detailed analysis of the CCI index in Ukraine, please contact Yevhenia Yehorova at tel.: (38-044) 236-5464, 236-4477, or e-mail: marketing@icps.kiev.ua. You may also order ICPS publications through the centre's web-site www.icps.com.ua/eng/subscription.html or you may purchase an electronic version of any ICPS economic publication in our Internet shop at www.icps.com.ua/eng/store/

ICPS Newsletter is a weekly publication of the International Centre for Policy Studies delivered by electronic mail.

To be included in the distribution list mail to: marketing@icps.kiev.ua.

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